

NEW APPLICATION



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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

DOCKETED

MAY 12 2005

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W-01583A-05-0340

IN THE MATTER OF THE APPLICATION)
OF LAS QUINTAS SERENAS WATER CO.)
FOR AN OPINION AND ORDER TO (I) RE-)
OPEN RECORD IN RECENT RATE CASE)
SO AS TO CONSIDER EVIDENCE IN)
SUPPORT OF AN ARSENIC COST)
RECOVERY MECHANISM, AND (II))
MODIFY RATE CASE DECISION IN)
ORDER TO ADD AN ARSENIC COST)
RECOVERY MECHANISM AS AN)
AUTHORIZED RATE AND CHARGE)

Docket No. W-01583A-05-___

APPLICATION

Pursuant to A.A.C R14-3-106(F) and A.R.S. 40-252, Las Quintas Serenas Water Co.

("LQS"), by and through its undersigned counsel, hereby makes Application For An Opinion and Order to (i) Re-Open Record In Recent Rate Case So As to Consider Evidence In Support of An Arsenic Cost Recovery Mechanism, and (ii) Modify Rate Case Decision In Order to Add An Arsenic Cost Recovery Mechanism As An Authorized Rate and Charge ("Application"). In support of its Application, LQS submits the following information.

I.

DESCRIPTION OF APPLICANT

LQS is an Arizona public service corporation subject to regulation by the Commission as a water utility. LQS has received a certificate of convenience and necessity to provide potable water service to the public within a certificated service area in the vicinity of Sahuarita, Arizona.

MUNGER CHADWICK, P.L.C.
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(520) 721-1900

1 At present, LQS provides such service to approximately 826 customer connections, as well as
2 standpipe water service to 146 approximately additional customers.

3
4 As a public water service provider, LQS is subject to the regulations of the United States
5 Environmental Protection Agency ("EPA") which have lowered the allowable concentration of
6 arsenic in drinking water from 50 parts per billion to 10 parts per billion, effective January 23,
7 2006 ("New Arsenic Rules").

8 **II.**

9 **CIRCUMSTANCES OCCASIONING APPLICATION**

10 On January 4, 2005, the Commission issued Decision No. 67455 in which it established
11 new rates and charges for water service for LQS. In its Opinion and Order, the Commission
12 noted that

13 "The most recent lab analysis indicates that the arsenic
14 level for LQS's wells are above the new arsenic MCL.
15 Recent tests indicate that Well No. 5 has an arsenic MCL of
16 11 ug/l, Well No. 6 has an arsenic MCL of 15 ug/l, and
17 Well No. 7 has an MCL of 13 ug/l." [page 10, lines 20.5-
23.5]

18 Further, the Commission noted that its Staff

19 "...has calculated a preliminary estimate of arsenic removal
20 costs for LQS's system using ADEQ Arsenic Master Plan
21 ("AMP"). Staff's estimate includes \$186,992 in capital
22 costs, \$124,122 for annual operations and maintenance
23 costs, and \$28,409 in engineering costs. However, we make
24 no finding in this Decision as to the reasonableness of
25 Staff's estimates or any costs that may be incurred by LQS
26 to meet the new arsenic MCLs. [page 10, lines 24.5-page
27 11, line 2.5][emphasis added]

28 Consistent with the underscored statement, the rates and charges for water service authorized in
Decision No. 67455 did not include any amount for the recovery of capital costs or operation and
maintenance expense associated with LQS's compliance with the New Arsenic Rules.

On March 24, 2005, Westland Resources, Inc. ("Westland") presented to LQS a Water System and Arsenic Master Plan ("Plan").¹ The Plan estimates that LQS will be required to incur approximately \$995,625 in new capital costs in order to enable it to comply with the New Arsenic Rules. In that regard, LQS and Severn Trent estimate that LQS will also initially incur approximately \$ 21,000 in annual operation and maintenance expense in connection with such compliance. These capital costs and operation and maintenance expense are substantially in excess of the "preliminary estimate" of the Commission's Staff alluded to in Decision No. 67455. Moreover, as noted above, the rates and charges authorized in that decision do not include any amount for the recovery of such costs and expense.²

III.

RELIEF REQUESTED IN THIS APPLICATION

By means of this Application, LQS is requesting that the Commission issue an Opinion and Order re-opening the evidentiary record in Docket No. W-01583A-04-0178 for the purpose of receiving evidence as to the capital costs and initial annual operation and maintenance expense it is anticipated that LQS will incur in order to comply with the New Arsenic Rules.³ LQS's Board of Directors has approved the Plan, and LQS has submitted the same to the Pima County Department of Environmental Quality ("PCDEQ") for review and approval.⁴ As noted above, a copy of the same has also been filed with the Commission. LQS anticipates that by the

¹ A copy of the Plan was mailed to Brian Bozzo in the Commission's Utilities Division on March 25, 2005 pursuant to Decision No. 67455 in Docket No. W-01583A-04-0178.

² In the Plan, Westland also recommends \$793,750 of additional capital improvements which are unrelated to the New Arsenic Rules. By means of a separate and contemporaneously filed application, LQS is requesting a rate adjustment to recover long-term debt borrowing costs associated with these capital improvements.

³ In addition, by means of a separate motion which is contemporaneously being filed in Docket No. W-01583A-04-0178, LQS is requesting that the proceeding be re-opened by the Commission in connection with this Application.

⁴ LQS anticipates PCDEQ will request additional data from LQS in connection with their review of the Plan, and LQS will provide copies of such data as is provided to the Commission as well.

1 time a hearing is scheduled in its re-opened rate case, LQS should have more refined capital
2 costs and operation and maintenance expense figures for presentation to the Commission as part
3 of its evidentiary case.

4
5 In addition, and also by means of the Application, LQS is requesting that the Commission
6 exercise the authority available to it under A.R.S. 40-250 to modify and amend Decision No.
7 67455 so as to include as a part of LQS's authorized rates and charges an Arsenic Cost Recovery
8 Mechanism ("ACRM"). The amount of such ACRM would be based upon and determined by
9 the Commission's review of the evidence to be presented in the limited re-opened proceeding in
10 Docket No. W-01583A-04-0178.⁵

11
12 Finally, and as a corollary matter, LQS recently filed an application with the Commission
13 requesting authority to incur long-term debt for the purpose of financing capital costs associated
14 with implementation of the Plan. Inasmuch as some of these proposed borrowing costs would be
15 associated with the proposed ACRM, it might be appropriate to consolidate that financing
16 application with this Application (and the one referred to in Footnote 2 above) for hearing and
17 decision.

18 IV.

19 CONCLUSION

20
21 WHEREFORE, LQS hereby requests that the Commission issue an Opinion and Order (i)
22 re-opening the record in Docket No. W-01583A-04-0178 for the limited purpose of receiving
23 evidence in support of a proposed ACRM, and (ii) thereafter, if determined to be appropriate,
24 modifying and amending Decision No. 67455 so as to include an ACRM among LQS'
25 authorized rates and charges for water service.

26
27
28 ⁵ See Footnote 3 above.

1 Dated this 9TH day of May, 2005.

4 Lawrence V. Robertson, Jr.

5 Lawrence V. Robertson, Jr.
6 Munger Chadwick, PLC
7 333 N. Wilmot, Ste. 300
8 Tucson, Arizona 85711
9 Attorney for Las Quintas Serenas Water
10 Company

11 The original and 15 copies of the above
12 Application were filed this 10TH day of
13 May, 2005 with

14 Arizona Corporation Commission's
15 Docket Control
16 1200 West Washington
17 Phoenix, Arizona 85007

18 A copy of the above
19 Application was hand-delivered
20 this 10TH day of May, 2005 to:

21 Ernest Johnson, Director
22 Utilities Division - ACC
23 1200 West Washington
24 Phoenix, Arizona 85007

25 Christopher Kempley
26 Chief Counsel - ACC
27 1200 West Washington
28 Phoenix, Arizona 85007

Steve Olea, Assistant Director
Utilities Division - ACC
1200 West Washington
Phoenix, Arizona 85007

07

NEW APPLICATION

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* Also Admitted in Colorado
** Also Admitted in Washington State

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(520) 398-0411

FILE TODAY

May 11, 2005

Colleen Ryan, Supervisor
Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

FILE TODAY

W-01583A-05-0340

Re: Motion to Re-Open Proceeding ("Motion") in order that the Commission may consider and act upon, if it determines such action to be appropriate, the requests for relief set forth in LQS's contemporaneously filed Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence In Support Of An Arsenic Cost Recovery Mechanism, And (ii) Modify Rate Case Decision In Order To Add An Arsenic Cost Recovery Mechanism As An Authorized Rate And Charge

Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence In Support Of An Arsenic Cost Recovery Mechanism, And (ii) Modify Rate Case Decision In Order To Add An Arsenic Cost Recovery Mechanism As An Authorized Rate And Charge

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Application Of Las Quintas Serenas Water Co. For An Opinion And Order To (i) Re-Open Record In Recent Rate Case So As To Consider Evidence Relating To Long-Term Debt Borrowing Costs Associated With Implementation Of Capital Improvements Program, and (ii) Modify Rate Case Decision In Order To Authorize Recovery Of Long-Term Debt Borrowing Costs Within Authorized Rates and Charges

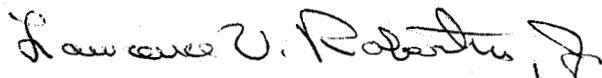
Colleen Ryan, Supervisor
May 11, 2005
Page 2

Dear Ms. Ryan:

Enclosed for filing are the original(s) and fifteen (15) copies of each of the above-referenced Applications and Motions. As you will note, two different subject matters are involved and one Application and one Motion relate to each. In addition, the enclosed Applications also bear a functional relationship to an Application filed last week on behalf of Las Quintas Serenas Water Co., which has been assigned Docket No. W-01583A-05-0326.

Hopefully, this combination of Applications and Motions in separate dockets will satisfactorily address the impediment to filing that we discussed last week. Please call me in the event you have any questions, and thank you for your assistance.

Sincerely,

A handwritten signature in cursive script, reading "Lawrence V. Robertson, Jr." with a stylized flourish at the end.

Lawrence V. Robertson, Jr.

LVR:cl

enclosures